



**Remarks of  
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Under Secretary for Policy**

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It is a pleasure to be back at yet another of Bobby Booth's annual CEO Conferences – the eleventh! These meetings always furnish a special opportunity to talk with industry leaders about the important challenges that we face in the global aviation industry. As you all know, this time we are facing challenges more daunting than ever before. The last few years have included a slowing of the global economy, the attacks of 9/11, the war in Iraq, and now severe acute respiratory syndrome – or SARS. In the aggregate, these problems have taken a huge collective toll on our economies and the airlines that serve them.

As you all know, U.S. carriers have been no exception. Two major airlines have been forced to declare bankruptcy and others may join them. Shrinking demand, especially in the all-important business travel market, has forced carriers to cut costs more severely than anything we have seen in the past – particularly by reducing the industry's workforce. There will be no early return to normalcy.

**Building Aviation and Economic Ties**

Rather than dwell on the unhappy story of our current experience, I would like to talk to you today about how we can move forward in building a stronger, safer and more secure aviation industry in the Americas. The airline industry, at its core, is a vibrant and resilient part of the global economy, one that will continue to play a vital role in economic and trade relationships throughout the hemisphere. From the U.S. perspective, as President Bush said when he first came into office, building stronger links between this country and our neighbors throughout the Americas is a major priority. While 9/11 and the war in Iraq necessarily have diverted our attention for the past 19 months, the Bush Administration remains committed to building bridges across the hemisphere to ensure that we can extend prosperity and freedom to all of our citizens.

The U.S. of course has strong social and economic ties to countries throughout the region. We want to build on those ties by creating new links through the aviation system. Trade and commerce are the essential prerequisites to a more prosperous future in which our successes are closely tied to those of our closest neighbors.

It hasn't been widely noticed or commented upon, but despite the record losses the U.S. airlines have experienced since mid-2001, they haven't asked their government to scale back our international agreements. In fact, it's fair to say that the liberalized aviation relationships the U.S. has been pursuing since the late 1970's have furnished many U.S. carriers with an invaluable international hedge against the domestic downturn and have helped them to weather the sharp revenue declines they have suffered in the domestic market.

While the U.S. made substantial progress in the 1990's in opening markets around the world, aviation service throughout the Americas, as you all know, remains highly constrained. We have yet to give carriers in the region the opportunity to compete widely across all of the Americas, bringing the hemisphere a quality of competition and service that would bring substantial economic benefits for all our countries, to say nothing of the beneficial effects on consumer choice. On behalf of Secretary of Transportation Norman Mineta, I would like to express our very strong interest in working with you to expand choice and to increase opportunity in air services throughout the Americas.

In recent years, many of the restrictive bilateral aviation agreements commonplace for decades around the world have been replaced by more liberal open skies agreements. This liberalization has been successful in countries of all shapes and sizes because it produces public benefits that are simply not possible under restrictive regulation. One benefit of liberalization that is a major focus of this conference is the fact that it provides airlines with the opportunities and incentives to become more efficient before it is too late to do so.

The best way to demonstrate these benefits of course is to point to the success stories, albeit of limited number, that have occurred in the Americas. In part due to liberalization, LanChile has been able to expand its operations, with its affiliates now providing service in U.S.-to-third country markets typically served exclusively by national airlines in the past. Grupo TACA is another example of an emerging leader in Latin America.

To be sure, open-skies agreements in Latin America are still the exception to the rule, as our aviation relations with most Southern Hemisphere neighbors are governed by aviation agreements that continue to restrict choice, both for carriers and for consumers. While service in these markets increased as traffic grew during the surging economic growth of the late 1990's, airlines shielded from competition by restrictive bilateral agreements were given no incentive to become more efficient or to take other steps necessary to weather the bad times experienced more recently. This lack of flexibility

left many carriers little margin for error, and when tough times came, a number of airlines serving these markets simply could not persevere.

It seems clear that the approach to international aviation taken to date throughout much of the Americas has failed. It has failed to provide consumers with the benefits and options available to them in other markets, and it has failed to ensure the ultimate survival of many of the national carriers that the restrictive agreements of the past were meant to protect.

### **Potential Models for Integration**

We need to consider alternatives. There may be new markets and new sources of growth for Latin American airlines in a more liberal aviation environment if government policy makers in the region begin to approach the issue in a fresh way, and if we are prepared to explore new frameworks for services in this hemisphere – even frameworks that go beyond bilateralism.

Let me be more specific. As of today, the U.S. has a separate bilateral aviation relationship with virtually every nation in Latin America. Similarly, each of these nations has a separate bilateral relationship with each of its neighbors. The result is a crazy-quilt of literally hundreds of bilateral agreements that together comprise the legal framework for providing for air service in this hemisphere. This situation has created excessive fragmentation of air services in the region, which has inhibited the growth of aviation services in the Americas, thereby inhibiting access for carriers in the region to new markets.

It is time to start thinking about a new model for aviation services in this region. We should be open to a new regional framework – a framework that could consist of two major pillars. The first pillar would call for the governments of Latin America to replace the patchwork of aviation agreements that currently exist with a single market, at least for the purpose of engaging in aviation trade with other nations. The second involves linking a newly invigorated Latin American aviation marketplace with the U.S. market.

There are in fact a number of models already in place that could be used to establish that linkage. They are similar in that they all rely on liberal aviation environments to provide airlines with new business opportunities and opportunities to strengthen their existing operations. They differ only in the level of integration and coordination that is used to provide those new opportunities.

The European Union provides a model for establishing one internal market for a specific region. The EU has transformed the once separate bilateral aviation markets of its members into a single, liberal aviation market that is open to all airlines from EU member states. The EU system calls for a Transportation Commission and a Competition Commission to carry out its internal liberal aviation program. The Transportation Commission is now seeking a mandate from the EU member countries to represent the region in aviation negotiations with the U.S. We look forward to discussing the creation

of a more open and integrated aviation market – perhaps even a single aviation market -- once the Commission receives its mandate, something that would create a plethora of new business opportunities for carriers in both the United States and the EU.

I do appreciate the unique nature of the EU structure and the significant time it would take to establish a framework that resembles the EU. There are other models, however, where collective action may be available to the countries of Latin America more quickly.

One example would be what has happened in Scandinavia. In that situation, the U.S. maintains separate liberal bilateral aviation agreements with Denmark, Norway and Sweden. But those three nations have agreed to work with each other as if they were one nation for the purposes of conducting international aviation relations, and we have agreed to work with them on that basis. Our aviation relationship with the Scandinavians has yielded significant dividends, including providing the airlines of Scandinavia with the opportunity to rely on an effective, collective approach to serving the U.S.

The Asia Pacific Economic Cooperation (APEC) forum provides another model for establishing a collective approach to international air service. A multilateral aviation agreement involving the U.S. and six other nations currently provides the parties' airlines with the opportunity to operate freely between and among each other's territories. The effect is to create one large open aviation market between the U.S. and each of the other APEC members, *as well as* between those other countries. The APEC multilateral agreement also provides new opportunities for investing in the airlines participating in the regime by eliminating many of the standard bilateral restrictions on foreign ownership. Another important feature is that it can be quickly expanded to include other nations, and therefore provides a fast and effective approach.

Joint ventures with other airlines can also provide new opportunities. There are many approaches to commercial cooperation, ranging from code-share relationships to more highly integrated airline alliances. We certainly would be interested in working with you to develop new cross-border relationships, provided of course that those relationships are consistent with our competition laws.

Growth in trade is vital to our economies, and the United States has been working hard for many years with other governments in this hemisphere to break down barriers to trade. It is our hope that the tremendous success of the NAFTA agreement and the momentum we are currently building through free trade agreements with Chile and the countries of Central America will allow us to make similar strides in liberalizing aviation services throughout the hemisphere.

### **The Importance of Leadership**

The significance of the airline executive's role in providing the leadership necessary to bring about the transition to a more highly liberalized aviation regime cannot be overstated. As industry leaders, you are in an excellent position to help convince your governments to work with us to develop an aviation framework for the Americas that

leads to new opportunities for all while building a safer and more secure aviation system for our citizens. In this respect, the role that you can play is not limited to questions about whether or not your country should have an open skies agreement with the U.S. or whether it should join the APEC multilateral agreement.

There is a great deal of important work underway to improve the safety of this industry in the Americas, and your support is vital to its ultimate success. FAA Administrator Marion Blakey and her team are working hard to broaden their network of partnerships with civil aviation authorities as well as with regional safety organizations like the Central American Agency for Aviation Safety (ACSA). The ACSA structure, which provides a pool of inspectors with technical expertise in flight operations and airworthiness that can be called upon by all participating nations, can and should be embraced elsewhere.

In addition to our support of ACSA, we are also supporting regional safety organizations in the Caribbean and in Africa, where our Safe Skies initiative has been a tremendous success. We believe that it is critical for the International Civil Aviation Organization (ICAO) to help guide the establishment and development of these regional systems, and we stand ready to assist ICAO in this endeavor.

Given the vital contribution that air service makes to our economies and to our daily lives, we are all in this together. Our goal should be to do all we can to facilitate thriving markets and effective air service while maintaining the highest levels of safety oversight. We want strong and healthy U.S. and Latin American airlines because strong partners are essential to providing the competition that is a prerequisite to building a truly hemispheric aviation system.

These are just a few ideas regarding what we can do to advance the goal of aviation liberalization and safety in our hemisphere. I offer them to you in the interest of promoting a new dialogue on how all of us can work together to provide new opportunities for our airlines, promote trade and economic growth, and give our citizens access to new services. We want to hear your views as well, and I look forward to a robust discussion of these issues in the days and weeks ahead.

Thank you for allowing me to share these thoughts with you today.

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